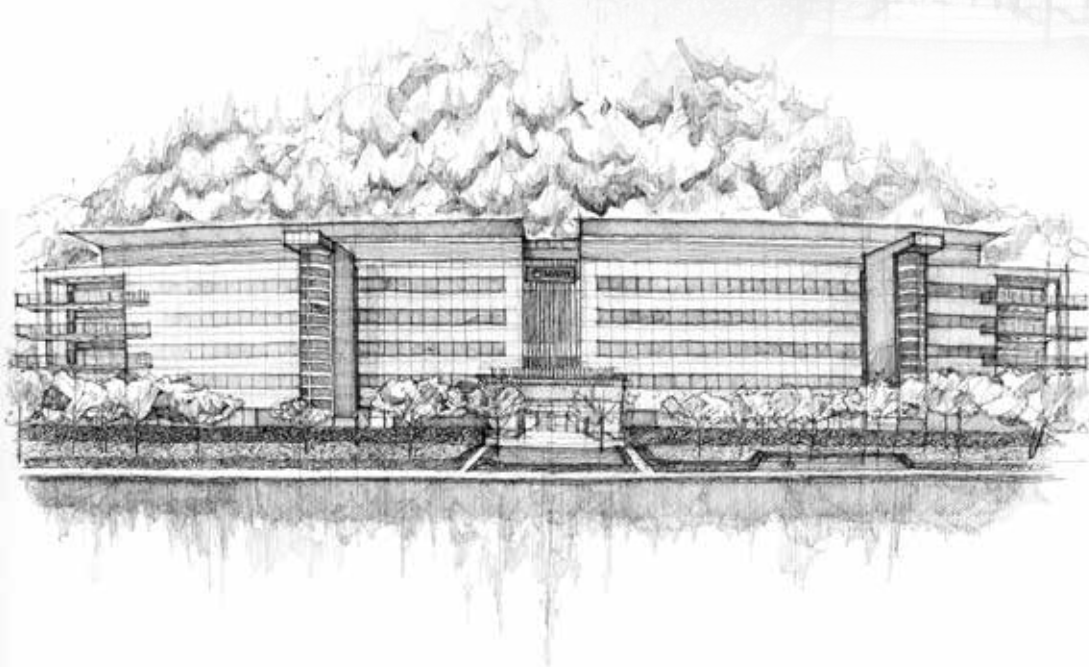


# UNAUDITED CONSOLIDATED INTERIM RESULTS

FOR THE SIX MONTHS ENDED 31 AUGUST 2021



**SPEAR**  
REIT LIMITED

## SALIENT DETAILS



38.89

HY2022 DPS  
CENTS PER SHARE



33.06

HY2022 DPS  
CENTS PER SHARE



12.66%

DPS  
GROWTH



85%

HY2022  
PAY-OUT RATIO



97.33%

HY2022  
COLLECTION



92.79%

OCCUPANCY



45.91%

LOAN-TO-VALUE  
("LTV")



2.15

ICR



R11.94

TNAV



## NATURE OF THE BUSINESS

Spear REIT Limited ("Spear" or "the group" or "the company") listed as a Real Estate Investment Trust ("REIT") on the main board of the Johannesburg Stock Exchange ("JSE") and is the only regionally-focused REIT listed on the JSE which only invests in high-quality income-generating assets in the Western Cape.

Spear obtains its diversification through asset type, rather than geographical investment.

The company conducts its business directly and through a number of subsidiaries, collectively referred to as "the group".

The group's property and asset management functions are internally and directly managed by the Spear executive management team.

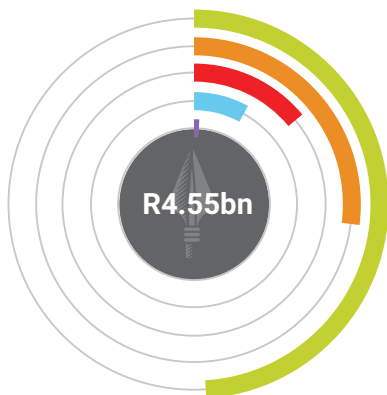
### SPEAR REIT LIMITED

Incorporated in the Republic of South Africa  
Registration number 2015/407237/06  
JSE share code: SEA  
ISIN: ZAE000228995  
LEI: 378900F76170CCB33C50  
(Approved as a REIT by the JSE)  
("Spear" or "the group" or "the company")

# SECTORAL SPLIT BY VALUE, REVENUE AND GLA



## VALUE OF PROPERTIES



**R2.25bn** Commercial **50%**

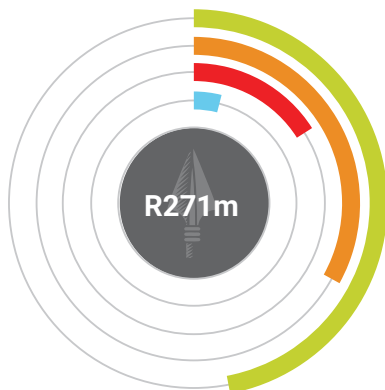
**R1.24bn** Industrial **27%**

**R636m** Retail **14%**

**R379m** Hospitality **8%**

**R49m** Development land **1%**

## PROPERTY REVENUE EXCLUDING SMOOTHING



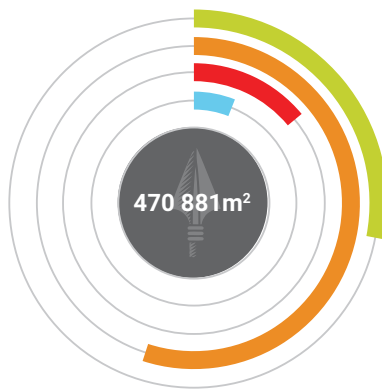
**R128m** Commercial **47%**

**R90m** Industrial **33%**

**R42m** Retail **16%**

**R11m** Hospitality **4%**

## GROSS LETTABLE AREA



**133 879m²** Commercial **28%**

**260 229m²** Industrial **55%**

**48 695m²** Retail **11%**

**28 078m²** Hospitality **6%**

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

|                                                       | Group                                                    |                                                          |                                                 |
|-------------------------------------------------------|----------------------------------------------------------|----------------------------------------------------------|-------------------------------------------------|
|                                                       | Unaudited<br>Six months<br>ended<br>August 2021<br>R'000 | Unaudited<br>Six months<br>ended<br>August 2020<br>R'000 | Audited<br>Year ended<br>February 2021<br>R'000 |
| <b>ASSETS</b>                                         |                                                          |                                                          |                                                 |
| Investment property (including straight-line accrual) | 4 552 059                                                | 4 457 815                                                | 4 495 969                                       |
| Property, plant and equipment                         | 1 920                                                    | 2 550                                                    | 2 206                                           |
| Financial assets                                      | 4 135                                                    | 58 307                                                   | 4 382                                           |
| Deferred taxation                                     | 6 179                                                    | 6 942                                                    | 6 179                                           |
| <b>Non-current assets</b>                             | <b>4 564 293</b>                                         | <b>4 525 614</b>                                         | <b>4 508 736</b>                                |
| Financial assets                                      | 27 156                                                   | 15 067                                                   | 21 204                                          |
| Loans to related parties                              | 199                                                      | 1 457                                                    | 1 689                                           |
| Trade and other receivables                           | 21 396                                                   | 18 313                                                   | 19 918                                          |
| Cash and cash equivalents                             | 20 512                                                   | 32 589                                                   | 32 340                                          |
| Other financial asset                                 | 69 867                                                   | –                                                        | –                                               |
| <b>Current assets</b>                                 | <b>139 130</b>                                           | <b>67 426</b>                                            | <b>75 151</b>                                   |
| <b>TOTAL ASSETS</b>                                   | <b>4 703 423</b>                                         | <b>4 593 040</b>                                         | <b>4 583 887</b>                                |
| <b>EQUITY AND LIABILITIES</b>                         |                                                          |                                                          |                                                 |
| <b>Shareholders' interest</b>                         |                                                          |                                                          |                                                 |
| Share capital                                         | 1 992 463                                                | 1 906 155                                                | 1 923 355                                       |
| Share-based payment reserve                           | 15 358                                                   | 20 303                                                   | 26 012                                          |
| Accumulated income                                    | 432 876                                                  | 426 964                                                  | 422 890                                         |
| Total attributable to owners                          | 2 440 697                                                | 2 353 422                                                | 2 372 257                                       |
| Non-controlling interest                              | 23 255                                                   | 73 197                                                   | 19 041                                          |
|                                                       | <b>2 463 952</b>                                         | <b>2 426 619</b>                                         | <b>2 391 298</b>                                |
| <b>Liabilities</b>                                    |                                                          |                                                          |                                                 |
| Financial liabilities                                 | 1 883 196                                                | 1 661 713                                                | 1 698 227                                       |
| <b>Non-current liabilities</b>                        | <b>1 883 196</b>                                         | <b>1 661 713</b>                                         | <b>1 698 227</b>                                |
| Financial liabilities                                 | 274 484                                                  | 428 049                                                  | 407 021                                         |
| Finance lease                                         | 1 652                                                    | 1 785                                                    | 1 692                                           |
| Bank overdraft                                        | –                                                        | –                                                        | 278                                             |
| Trade and other payables                              | 79 825                                                   | 74 874                                                   | 85 057                                          |
| Taxation payable                                      | 314                                                      | –                                                        | 314                                             |
| <b>Current liabilities</b>                            | <b>356 275</b>                                           | <b>504 708</b>                                           | <b>494 362</b>                                  |
| <b>TOTAL LIABILITIES</b>                              | <b>2 239 471</b>                                         | <b>2 166 421</b>                                         | <b>2 192 589</b>                                |
| <b>TOTAL EQUITY AND LIABILITIES</b>                   | <b>4 703 423</b>                                         | <b>4 593 040</b>                                         | <b>4 583 887</b>                                |
| Number of ordinary shares in issue                    | 214 615 571                                              | 205 776 521                                              | 214 615 571                                     |
| Treasury shares                                       | (10 710 073)                                             | (6 156 664)                                              | (8 882 340)                                     |
| Net ordinary shares in issue                          | 203 905 498                                              | 199 619 857                                              | 205 733 231                                     |
| <b>Gearing ratio</b>                                  | <b>(%) 45.91</b>                                         | <b>45.36</b>                                             | <b>45.81</b>                                    |
| Net asset value per share*                            | (Rands) 11.97                                            | 11.79                                                    | 11.53                                           |
| Tangible net asset value per share                    | (Rands) 11.94                                            | 11.75                                                    | 11.50                                           |

\* This calculation is compliant with and disclosed in terms of IFRS. Please refer to Appendix 1 on page 8 for SA REIT BPR calculations and metrics

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME



|                                                      | Group                                                    |                                                          |                                                 |
|------------------------------------------------------|----------------------------------------------------------|----------------------------------------------------------|-------------------------------------------------|
|                                                      | Unaudited<br>Six months<br>ended<br>August 2021<br>R'000 | Unaudited<br>Six months<br>ended<br>August 2020<br>R'000 | Audited<br>Year ended<br>February 2021<br>R'000 |
| Contractual rental income                            | 204 343                                                  | 182 533                                                  | 377 846                                         |
| Tenant recoveries                                    | 66 221                                                   | 57 833                                                   | 120 284                                         |
| Straight-line rental income accrual                  | 15 981                                                   | 13 619                                                   | 32 238                                          |
| <b>Property revenue</b>                              | <b>286 545</b>                                           | 253 985                                                  | 530 368                                         |
| Other income                                         | 381                                                      | 113                                                      | 869                                             |
| <b>Total revenue</b>                                 | <b>286 926</b>                                           | 254 098                                                  | 531 237                                         |
| Property operating and management expenses           | (92 381)                                                 | (75 785)                                                 | (160 925)                                       |
| <b>Net property-related income</b>                   | <b>194 545</b>                                           | 178 313                                                  | 370 313                                         |
| Administrative expenses                              | (18 250)                                                 | (13 264)                                                 | (26 665)                                        |
| <b>Net property operating profit</b>                 | <b>176 295</b>                                           | 165 049                                                  | 343 648                                         |
| Fair value adjustment – Investment properties        | (13 975)                                                 | (81 862)                                                 | (106 404)                                       |
| Fair value adjustment – Investments                  | (8 715)                                                  | –                                                        | –                                               |
| Impairment of investments                            | –                                                        | –                                                        | (119)                                           |
| Depreciation and amortisation                        | (6 580)                                                  | (5 394)                                                  | (11 754)                                        |
| Listing cost                                         | –                                                        | –                                                        | (278)                                           |
| Share-based payment expense                          | (2 796)                                                  | (6 182)                                                  | (11 891)                                        |
| <b>Profit from operations</b>                        | <b>144 229</b>                                           | 71 611                                                   | 213 202                                         |
| <b>Net interest</b>                                  | <b>(74 428)</b>                                          | (69 921)                                                 | (147 927)                                       |
| – Finance costs                                      | (75 365)                                                 | (73 629)                                                 | (153 836)                                       |
| – Finance income                                     | 937                                                      | 3 708                                                    | 5 909                                           |
| <b>Profit before taxation</b>                        | <b>69 801</b>                                            | 1 690                                                    | 65 275                                          |
| Taxation                                             | –                                                        | –                                                        | (8 290)                                         |
| <b>Profit for the period</b>                         | <b>69 801</b>                                            | 1 690                                                    | 56 984                                          |
| Other comprehensive income                           | –                                                        | –                                                        | –                                               |
| <b>TOTAL COMPREHENSIVE INCOME<br/>FOR THE PERIOD</b> | <b>69 801</b>                                            | 1 690                                                    | 56 984                                          |
| <i>Attributable to:</i>                              |                                                          |                                                          |                                                 |
| Equity owners of the parent                          | 69 801                                                   | (2 287)                                                  | 53 008                                          |
| Non-controlling interest                             | –                                                        | 3 977                                                    | 3 977                                           |
| <b>TOTAL COMPREHENSIVE INCOME<br/>FOR THE PERIOD</b> | <b>69 801</b>                                            | 1 690                                                    | 56 984                                          |
| Basic earnings per share (cents)                     | 32.52                                                    | (0.58)                                                   | 25.48                                           |
| Diluted earnings per share (cents)                   | 32.52                                                    | (0.58)                                                   | 25.48                                           |
| Distribution per share* (cents)                      | 33.06                                                    | 29.34                                                    | 58.70                                           |
| Interest cover ratio (times)                         | 2.15                                                     | 2.17                                                     | 2.11                                            |

\* Refer to Appendix 1

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

|                                                     | Group                                                    |                                                          |                                                 |
|-----------------------------------------------------|----------------------------------------------------------|----------------------------------------------------------|-------------------------------------------------|
|                                                     | Unaudited<br>Six months<br>ended<br>August 2021<br>R'000 | Unaudited<br>Six months<br>ended<br>August 2020<br>R'000 | Audited<br>Year ended<br>February 2021<br>R'000 |
| Cash generated from operations                      |                                                          |                                                          |                                                 |
| <b>Profit before tax</b>                            | <b>69 801</b>                                            | 1 691                                                    | 65 275                                          |
| <i>Adjustments for:</i>                             |                                                          |                                                          |                                                 |
| Straight-line rental income accrual                 | (15 981)                                                 | (13 619)                                                 | (32 238)                                        |
| Depreciation                                        | 6 580                                                    | 5 394                                                    | 11 754                                          |
| Fair value adjustments                              | 22 689                                                   | 81 862                                                   | 106 404                                         |
| Impairment investments                              | –                                                        | –                                                        | 119                                             |
| Finance income                                      | (937)                                                    | (3 708)                                                  | (5 909)                                         |
| Finance cost                                        | 75 365                                                   | 73 629                                                   | 153 836                                         |
| Share-based payment expense                         | 2 796                                                    | 6 182                                                    | 11 891                                          |
| <i>Changes in working capital</i>                   |                                                          |                                                          |                                                 |
| Trade and other receivables                         | (1 478)                                                  | (4 687)                                                  | (6 292)                                         |
| Trade and other payables                            | (5 232)                                                  | 4 843                                                    | 15 026                                          |
| <b>Cash generated from operating activities</b>     | <b>153 604</b>                                           | 151 587                                                  | 319 866                                         |
| Finance costs                                       | (73 235)                                                 | (73 629)                                                 | (152 592)                                       |
| Finance income                                      | 764                                                      | 2 164                                                    | 2 974                                           |
| Distribution paid                                   | (59 815)                                                 | (94 128)                                                 | (152 413)                                       |
| Taxation paid                                       | –                                                        | –                                                        | (7 213)                                         |
| <b>NET CASH GENERATED FROM OPERATING ACTIVITIES</b> | <b>21 318</b>                                            | (14 006)                                                 | 10 622                                          |
| <b>Cash flows from investing activities</b>         |                                                          |                                                          |                                                 |
| Acquisition of investment property                  | –                                                        | (380 267)                                                | (381 606)                                       |
| Cost incurred on developments                       | (33 666)                                                 | (14 224)                                                 | (58 544)                                        |
| Cost capitalised to investment property             | (22 442)                                                 | (7 393)                                                  | (14 123)                                        |
| Proceeds on sale of investment property             | –                                                        | 56 535                                                   | 58 830                                          |
| Acquisition of property, plant and equipment        | (56)                                                     | (29)                                                     | (29)                                            |
| Repayment of loan to tenant                         | 420                                                      | 376                                                      | 376                                             |
| Loan advanced to tenant                             | (5 952)                                                  | (4 945)                                                  | (11 082)                                        |
| <b>NET CASH USED IN INVESTING ACTIVITIES</b>        | <b>(61 697)</b>                                          | (349 947)                                                | (406 178)                                       |
| <b>Cash flow from financing activities</b>          |                                                          |                                                          |                                                 |
| Proceeds on dividend reinvestment programme         | –                                                        | –                                                        | 32 236                                          |
| Proceeds from financial liabilities                 | 50 302                                                   | 378 341                                                  | 477 840                                         |
| Repayment of financial liabilities                  | –                                                        | –                                                        | (85 300)                                        |
| Repayment of solar lease liability                  | (40)                                                     | –                                                        | (93)                                            |
| Loan advanced to/(received from) related party      | 1 490                                                    | (1 347)                                                  | (1 579)                                         |
| Purchase of treasury shares                         | (22 924)                                                 | (4 632)                                                  | (20 461)                                        |
| Proceeds from sale of treasury shares               | –                                                        | –                                                        | 794                                             |
| <b>NET CASH GENERATED FROM FINANCING ACTIVITIES</b> | <b>28 828</b>                                            | 372 362                                                  | 403 437                                         |
| <b>Total cash movement for the period</b>           | <b>(11 550)</b>                                          | 8 409                                                    | 7 881                                           |
| <b>Cash at the beginning of the period</b>          | <b>32 062</b>                                            | 24 181                                                   | 24 181                                          |
| <b>CASH AT THE END OF THE PERIOD</b>                | <b>20 512</b>                                            | 32 590                                                   | 32 062                                          |

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY



|                                             | Group                     |                                |                            |                                             |                                          |                          |
|---------------------------------------------|---------------------------|--------------------------------|----------------------------|---------------------------------------------|------------------------------------------|--------------------------|
|                                             | Share<br>capital<br>R'000 | Accumulated<br>profit<br>R'000 | Equity<br>reserve<br>R'000 | Total<br>attributable<br>to parent<br>R'000 | Non-<br>controlling<br>interest<br>R'000 | Total<br>equity<br>R'000 |
| <b>BALANCE AS AT<br/>1 MARCH 2020</b>       | <b>1 910 787</b>          | <b>522 291</b>                 | <b>14 120</b>              | <b>2 447 199</b>                            | <b>73 197</b>                            | <b>2 520 395</b>         |
| <i>Changes in equity:</i>                   |                           |                                |                            |                                             |                                          |                          |
| Profit for the period                       | –                         | (1 203)                        | –                          | (1 203)                                     | 2 894                                    | 1 691                    |
| Distribution to minority<br>shareholder     | –                         | –                              | –                          | –                                           | (2 894)                                  | (2 894)                  |
| Acquisition of treasury<br>shares           | (4 629)                   | –                              | –                          | (4 629)                                     | –                                        | (4 629)                  |
| Distributions to<br>shareholders            | –                         | (94 124)                       | –                          | (94 124)                                    | –                                        | (94 124)                 |
| Share-based payment<br>expense              | –                         | –                              | 6 182                      | 6 182                                       | –                                        | 6 182                    |
| <b>BALANCE AS AT<br/>31 AUGUST 2020</b>     | <b>1 906 158</b>          | <b>426 964</b>                 | <b>20 302</b>              | <b>2 353 425</b>                            | <b>73 197</b>                            | <b>2 426 621</b>         |
| <i>Changes in equity:</i>                   |                           |                                |                            |                                             |                                          |                          |
| Acquisition of non-<br>controlling interest | –                         | –                              | –                          | –                                           | (54 155)                                 | (54 155)                 |
| Profit for the period                       | –                         | 54 211                         | –                          | 54 211                                      | 1 083                                    | 55 293                   |
| Distribution to minority<br>shareholder     | –                         | –                              | –                          | –                                           | (1 083)                                  | (1 083)                  |
| Dividend reinvestment<br>programme          | 32 236                    | –                              | –                          | 32 236                                      | –                                        | 32 236                   |
| Acquisition of treasury<br>shares           | (15 831)                  | –                              | –                          | (15 831)                                    | –                                        | (15 831)                 |
| Disposal of treasury<br>shares              | 792                       | –                              | –                          | 792                                         | –                                        | 792                      |
| Distributions to<br>shareholders            | –                         | (58 285)                       | –                          | (58 285)                                    | –                                        | (58 285)                 |
| Share-based payment<br>expense              | –                         | –                              | 5 709                      | 5 709                                       | –                                        | 5 709                    |
| <b>BALANCE AS AT<br/>28 FEBRUARY 2021</b>   | <b>1 923 355</b>          | <b>422 890</b>                 | <b>26 012</b>              | <b>2 372 257</b>                            | <b>19 041</b>                            | <b>2 391 299</b>         |
| <i>Changes in equity:</i>                   |                           |                                |                            |                                             |                                          |                          |
| Profit for the period                       | –                         | 69 801                         | –                          | 69 801                                      | –                                        | 69 801                   |
| Investment in subsidiary                    | 4 421                     | –                              | –                          | 4 421                                       | 4 214                                    | 8 635                    |
| Recognition of treasury<br>shares           | 64 687                    | –                              | –                          | 69 108                                      | –                                        | 69 108                   |
| Distributions to<br>shareholders            | –                         | (59 815)                       | –                          | (59 815)                                    | –                                        | (59 815)                 |
| Share-based payment<br>expense              | –                         | –                              | 2 796                      | 2 796                                       | –                                        | 2 796                    |
| Vesting conditional<br>share plan           | –                         | –                              | (13 450)                   | (13 450)                                    | –                                        | (13 450)                 |
| <b>BALANCE AS AT<br/>31 AUGUST 2021</b>     | <b>1 992 463</b>          | <b>432 876</b>                 | <b>15 358</b>              | <b>2 440 697</b>                            | <b>23 255</b>                            | <b>2 463 952</b>         |

# OPERATING SEGMENT INFORMATION

## FOR THE SIX MONTHS ENDED 31 AUGUST 2021

|                                | Industrial<br>R'000 | Commercial<br>R'000 | Retail<br>R'000 | Hospitality<br>R'000 | Non-property<br>R'000 | Development<br>R'000 | Total<br>R'000 |
|--------------------------------|---------------------|---------------------|-----------------|----------------------|-----------------------|----------------------|----------------|
| Segment revenue                | 89 881              | 127 640             | 41 746          | 11 440               | 238                   | -                    | 270 945        |
| Straight-lining of leases      | 4 282               | 5 453               | 2 081           | 4 164                | -                     | -                    | 15 981         |
| Profit from operations         | 96 585              | 94 647              | 37 096          | (55 785)             | (28 307)              | (6)                  | 144 229        |
| Fair value adjustments         | 33 729              | 6 937               | 9 386           | (64 026)             | -                     | -                    | (13 975)       |
| Net property operating profit  | 63 265              | 91 970              | 28 970          | 8 550                | (16 454)              | (6)                  | 176 295        |
| Finance income                 | 319                 | 265                 | 287             | 13                   | 18                    | 34                   | 937            |
| Finance costs                  | (11 930)            | (43 566)            | (5 139)         | (2 747)              | (11 983)              | -                    | (75 365)       |
| Investment property ("IP")     | 1 193 337           | 2 216 154           | 613 920         | 356 236              | -                     | -                    | 4 379 647      |
| IP under development and land  | 29 318              | -                   | -               | -                    | -                     | 49 017               | 78 334         |
| Straight-lining of lease asset | 12 345              | 37 346              | 21 580          | 22 764               | -                     | -                    | 94 035         |
| Total assets                   | 1 337 225           | 2 316 331           | 676 403         | 398 747              | (71 440)              | 46 155               | 4 703 421      |
| Total liabilities              | (457 999)           | (1 149 815)         | (195 248)       | (106 319)            | (332 610)             | 2 520                | (2 239 471)    |



## SA REIT BEST PRACTICE RECOMMENDATIONS CALCULATION DISCLOSURE

The principles encompassed in the calculations below are aligned with Best Practice Recommendations ("BPR") by the SA REIT Association published in 2019 and do not comply with IFRS. The BPR is only effective for financial year-ends commencing on or after 1 January 2020. Spear's executive committee elected to early adopt the BPR in the prior financial year ended 29 February 2020.

## RECONCILIATION BETWEEN EARNINGS AND DISTRIBUTABLE EARNINGS

The company has established strict guidelines regarding its distribution policy to ensure that the distributable earnings are a fair reflection of sustainable earnings. This comprises property-related income net of property-related expenditure, interest expense and administrative costs.

The specific adjustments are detailed in the statement of funds from operations below. All of these adjustments are derived from the face of the statement of comprehensive income presented and the accompanying notes to the financial statements.

## SA REIT FUNDS FROM OPERATIONS (SA REIT FFO) PER SHARE

|                                                                                             | Year ended<br>August<br>2021<br>R'000 | Year ended<br>August<br>2020<br>R'000 |
|---------------------------------------------------------------------------------------------|---------------------------------------|---------------------------------------|
| Profit or loss per IFRS Statement of Comprehensive Income (SOCl) attributable to the parent | 69 801                                | (1 203)                               |
| Adjusted for:                                                                               |                                       |                                       |
| Accounting/specific adjustments:                                                            | 6 708                                 | 68 243                                |
| Fair value adjustments to:                                                                  |                                       |                                       |
| – Investment property                                                                       | 13 975                                | 81 862                                |
| – Equity instruments held at fair value through profit or loss                              | 8 715                                 | –                                     |
| Straight-lining operating lease adjustment                                                  | (15 981)                              | (13 619)                              |
| <b>SA REIT FFO</b>                                                                          | <b>76 509</b>                         | <b>67 040</b>                         |
| <b>Company-specific adjustments</b>                                                         | <b>2 796</b>                          | <b>6 182</b>                          |
| IFRS 2 expense – CSP awards with future vesting and issue date                              | 2 796                                 | 6 182                                 |
| <b>INTERIM DISTRIBUTABLE COMPANY FFO</b>                                                    | <b>79 305</b>                         | <b>73 222</b>                         |
| Number of shares outstanding at end of interim period (net of treasury)                     | 203 905 498                           | 199 619 857                           |
| <b>INTERIM DISTRIBUTABLE INCOME PER SHARE (DIPS) (cents)</b>                                | <b>38.89</b>                          | <b>36.68</b>                          |
| <b>PAY-OUT RATIO FOR PERIOD (%)</b>                                                         | <b>85</b>                             | <b>80</b>                             |
| Interim distributable company FFO                                                           | 67 410                                | 58 578                                |
| <b>INTERIM COMPANY DISTRIBUTION PER SHARE (DPS) (cents)</b>                                 | <b>33.06</b>                          | <b>29.34</b>                          |

## APPENDIX 1 (CONTINUED)

### DIVIDEND DECLARED AND DIVIDEND PER SHARE

|                                                                              | Cents<br>per share | R'000          |
|------------------------------------------------------------------------------|--------------------|----------------|
| <b>Total distributions for the period – 2022</b>                             |                    |                |
| Interim distribution declared on 26 October 2021<br>(Distribution number 10) | 33.06              | 67 410         |
| Final distribution declared on TBC<br>(Distribution number 11)               | –                  | –              |
| <b>TOTAL DISTRIBUTIONS FOR THE PERIOD ENDED<br/>28 FEBRUARY 2022</b>         | <b>33.06</b>       | <b>67 410</b>  |
|                                                                              | Cents<br>per share | R'000          |
| <b>Total distributions for the period – 2021</b>                             |                    |                |
| Interim distribution declared on 17 October 2020<br>(Distribution number 8)  | 29.34              | 58 578         |
| Final distribution declared on 14 May 2021<br>(Distribution number 9)        | 29.36              | 60 403         |
| <b>TOTAL DISTRIBUTIONS FOR THE PERIOD ENDED<br/>28 FEBRUARY 2021</b>         | <b>58.70</b>       | <b>118 981</b> |

### SA REIT NET ASSET VALUE (SA REIT NAV)

|                                                                     | August<br>2021<br>R'000 | February<br>2021<br>R'000 |
|---------------------------------------------------------------------|-------------------------|---------------------------|
| Reported NAV attributable to the parent                             | 2 440 697               | 2 372 257                 |
| Adjustments:                                                        |                         |                           |
| Dividend declared and 100% cash-settled                             | (67 410)                | (60 403)                  |
| Deferred tax                                                        | (6 179)                 | (6 179)                   |
| <b>SA REIT NAV</b>                                                  | <b>2 367 108</b>        | <b>2 305 675</b>          |
| <b>Shares outstanding</b>                                           |                         |                           |
| Number of shares in issue at period end<br>(net of treasury shares) | 203 905 498             | 205 733 231               |
| <b>Dilutive number of shares in issue</b>                           | <b>203 905 498</b>      | <b>205 733 231</b>        |
| <b>SA REIT NAV PER SHARE (Rands)</b>                                | <b>11.61</b>            | <b>11.21</b>              |

## APPENDIX 1 (CONTINUED)



### SA REIT COST-TO-INCOME RATIO

|                                                                                                                                                        |     | <b>August<br/>2021<br/>R'000</b> | February<br>2021<br>R'000 |
|--------------------------------------------------------------------------------------------------------------------------------------------------------|-----|----------------------------------|---------------------------|
| <b>Expenses</b>                                                                                                                                        |     |                                  |                           |
| Operating expenses per IFRS income statement (include municipal expenses)                                                                              |     | <b>92 381</b>                    | 160 925                   |
| Administrative expenses per IFRS income statement                                                                                                      |     | <b>18 250</b>                    | 26 665                    |
| Other expenses, if directly related to property operations, with clear explanations of these items                                                     |     |                                  |                           |
| Depreciation                                                                                                                                           |     | <b>6 580</b>                     | 11 754                    |
| <i>Exclude:</i>                                                                                                                                        |     |                                  |                           |
| Depreciation expense in relation to property, plant and equipment of an administrative nature and amortisation expense in respect of intangible assets |     | <b>(342)</b>                     | (667)                     |
| <b>Operating costs</b>                                                                                                                                 | A   | <b>116 869</b>                   | 198 678                   |
| <b>Rental income</b>                                                                                                                                   |     |                                  |                           |
| Contractual rental income per IFRS income statement (excluding straight-lining)                                                                        |     | <b>204 724</b>                   | 378 716                   |
| Utility and operating recoveries per IFRS income statement                                                                                             |     | <b>66 221</b>                    | 120 284                   |
| <b>Gross rental income</b>                                                                                                                             | B   | <b>270 945</b>                   | 498 999                   |
| <b>SA REIT COST-TO-INCOME RATIO (%)</b>                                                                                                                | A/B | <b>43.13</b>                     | 39.82                     |

## APPENDIX 1 (CONTINUED)

### SA REIT ADMINISTRATIVE COST-TO-INCOME RATIO

|                                                                                  |     | August<br>2021<br>R'000 | February<br>2021<br>R'000 |
|----------------------------------------------------------------------------------|-----|-------------------------|---------------------------|
| <b>Expenses</b>                                                                  |     |                         |                           |
| Administrative expenses as per IFRS income statement                             |     | 18 250                  | 26 665                    |
| Other identified administrative expenses, with clear explanations of these items |     | 342                     | 667                       |
| Depreciation                                                                     |     | 342                     | 667                       |
| <b>Administrative costs</b>                                                      | A   | 18 593                  | 27 332                    |
| Rental income                                                                    |     |                         |                           |
| Contractual rental income per IFRS income statement (excluding straight-lining)  |     | 204 724                 | 378 716                   |
| Utility and operating recoveries per IFRS income statement                       |     | 66 221                  | 120 284                   |
| <b>Gross rental income</b>                                                       | B   | 270 945                 | 498 999                   |
| <b>SA REIT ADMINISTRATIVE COST-TO-INCOME RATIO (%)</b>                           | A/B | 6.86                    | 5.48                      |

### SA REIT GLA VACANCY RATE

|                                                 |     | August<br>2021<br>m <sup>2</sup> | February<br>2021<br>m <sup>2</sup> |
|-------------------------------------------------|-----|----------------------------------|------------------------------------|
| Gross lettable area of vacant space             | A   | 33 932                           | 27 949                             |
| Gross lettable area of total property portfolio | B   | 470 881                          | 453 458                            |
| <b>SA REIT GLA VACANCY RATE (%)</b>             | A/B | 7.21                             | 6.16                               |

## APPENDIX 1 (CONTINUED)



### COST OF DEBT

|                                                                      | August<br>2021<br>% | February<br>2021<br>% |
|----------------------------------------------------------------------|---------------------|-----------------------|
| <b>Variable interest rate borrowings</b>                             |                     |                       |
| Prime – Floating reference rate less weighted average margin         | 5.56                | 5.78                  |
| 3-month JIBAR – Floating reference rate plus weighted average margin | 5.63                | 5.64                  |
| <b>Fixed interest-rate borrowings</b>                                |                     |                       |
| Weighted average fixed rate                                          | 8.34                | 8.66                  |
| <b>Pre-adjusted weighted average cost of debt:</b>                   | <b>7.01</b>         | <b>7.26</b>           |
| <b>Adjustments:</b>                                                  |                     |                       |
| Impact of interest rate derivatives                                  | –                   | –                     |
| Amortised transaction costs imputed into the effective interest rate | –                   | –                     |
| <b>ALL-IN WEIGHTED AVERAGE COST OF DEBT</b>                          | <b>7.01</b>         | <b>7.26</b>           |

### SA REIT LOAN-TO-VALUE (SA REIT LTV)

|                                                    | August<br>2021<br>R'000 | February<br>2021<br>R'000 |
|----------------------------------------------------|-------------------------|---------------------------|
| Gross debt                                         | 2 157 680               | 2 105 248                 |
| Less:                                              |                         |                           |
| Cash and cash equivalents                          | (20 512)                | (32 340)                  |
| Add/Less:                                          |                         |                           |
| Derivative financial instruments                   | –                       | –                         |
| <b>Net debt</b>                                    | <b>2 137 168</b>        | <b>2 072 908</b>          |
| Total assets – per Statement of Financial Position | 4 703 423               | 4 583 887                 |
| Less:                                              |                         |                           |
| Cash and cash equivalents                          | (20 742)                | (32 340)                  |
| Derivative financial assets                        | –                       | –                         |
| Deferred taxation                                  | (6 179)                 | (6 179)                   |
| Trade and other receivables                        | (21 396)                | (19 918)                  |
| <b>Carrying amount of property-related assets</b>  | <b>4 655 106</b>        | <b>4 525 450</b>          |
| <b>SA REIT LTV (%)</b>                             | <b>45.91</b>            | <b>45.81</b>              |

# SELECTED EXPLANATORY NOTES TO THE RESULTS

## EARNINGS PER SHARE

This note provides the obligatory information in terms of IAS 33 Earnings Per Share and SAICA Circular 1/2019 for the Group and should be read in conjunction with the SA Best Practice Recommendations disclosure (see Annexure 1), where earnings are reconciled to company funds from operations ("CFFO"). CFFO determine the distribution declared to shareholders, which is a meaningful metric for a stakeholder in a REIT.

### BASIC EARNINGS PER SHARE

|                                                                 |                    | Group                                                    |                                                          |                                                 |
|-----------------------------------------------------------------|--------------------|----------------------------------------------------------|----------------------------------------------------------|-------------------------------------------------|
|                                                                 |                    | Unaudited<br>Six months<br>ended<br>August 2021<br>R'000 | Unaudited<br>Six months<br>ended<br>August 2020<br>R'000 | Audited<br>Year ended<br>February 2021<br>R'000 |
| <b>Shares in issue</b>                                          |                    |                                                          |                                                          |                                                 |
| Number of shares in issue at end of year net of treasury shares | (Number of shares) | <b>203 905 498</b>                                       | 199 619 857                                              | 205 733 231                                     |
| Weighted average number of shares in issue                      | (Number of shares) | <b>214 615 571</b>                                       | 205 776 521                                              | 208 003 843                                     |
| Diluted weighted average number of shares in issues             | (Number of shares) | <b>214 615 571</b>                                       | 205 776 521                                              | 208 003 843                                     |
| <b>Basic earnings per share</b>                                 |                    |                                                          |                                                          |                                                 |
| Earnings (profit attributable to owners of the parent)          | (R'000)            | <b>69 801</b>                                            | (1 203)                                                  | 53 008                                          |
| Basic earnings per share                                        | (cents)            | <b>32.52</b>                                             | (0.58)                                                   | 25.48                                           |
| Diluted earnings per share                                      | (cents)            | <b>32.52</b>                                             | (0.58)                                                   | 25.48                                           |

### HEADLINE EARNINGS PER SHARE

|                                                                     |         | Group                                                    |                                                          |                                                 |
|---------------------------------------------------------------------|---------|----------------------------------------------------------|----------------------------------------------------------|-------------------------------------------------|
|                                                                     |         | Unaudited<br>Six months<br>ended<br>August 2021<br>R'000 | Unaudited<br>Six months<br>ended<br>August 2020<br>R'000 | Audited<br>Year ended<br>February 2021<br>R'000 |
| <b>Reconciliation between basic earnings and headline earnings:</b> |         |                                                          |                                                          |                                                 |
| Earnings (profit attributable to owners of the parent)              | (R'000) | <b>69 801</b>                                            | (1 203)                                                  | 53 008                                          |
| Adjusted for:                                                       |         |                                                          |                                                          |                                                 |
| Fair value adjustments to investment properties: Gross              |         | <b>13 975</b>                                            | 81 862                                                   | 106 404                                         |
| Fair value adjustment to investments: Gross                         |         | <b>8 715</b>                                             | –                                                        | –                                               |
| Impairment of investments: Tax                                      |         | <b>–</b>                                                 | –                                                        | 119                                             |
| Headline earnings                                                   | (R'000) | <b>92 490</b>                                            | 80 659                                                   | 159 531                                         |
| <b>Headline earnings per share:</b>                                 |         |                                                          |                                                          |                                                 |
| Headline earnings per share                                         | (cents) | <b>43.10</b>                                             | 39.20                                                    | 76.70                                           |
| Diluted headline earnings per share                                 | (cents) | <b>43.10</b>                                             | 39.20                                                    | 76.70                                           |

# SELECTED EXPLANATORY NOTES TO THE RESULTS (CONTINUED)



## INTRODUCTION

Spear REIT Limited (SEA:SJ) is the only regionally specialised Real Estate Investment Trust listed on the Johannesburg Stock Exchange (JSE). Spear obtains its diversification through investing into high-quality Western Cape only assets that generate strong and sustainable cash flows within the high-quality industrial, convenience retail, commercial, mixed-use and hospitality sectors.

Spear invests only within the borders of the greater Western Cape with a distinct focus on the Cape Town region.

Spear's mission statement is to be the leading Western Cape-focused REIT and to consistently grow its distribution per share ahead of inflation annually, and to deliver fund performance that places it within the top quartile of the SA REIT sector. The Spear management team's proximity to its assets is excellent and together with an acute understanding of the Western Cape real estate environment makes the company a true regional specialist priding itself on its hands-on asset management approach.

During the interim period the world has started to transition into a post-Covid operating scenario with the global vaccine rollout underway, international borders reopening and governments grappling with how its citizens will move around the world for business and leisure purposes. The residual effects of the pandemic will continuously be felt by many, both locally and internationally, for many years to come. Within the Western Cape the Provincial Health Department has made significant inroads into vaccinating speedily and safely as many citizens as possible in a concerted effort to flatten the various infection waves. The negative economic impact of the pandemic on the Western Cape and South Africa remains significant with large parts of the travel, tourism and hospitality sector remaining impaired. Strict quarantine requirements by countries of origin further depress the inbound travel market into South Africa significantly hampering the commencement of any form of tourism recovery.

The operating environment over the past six months has remained frustratingly unpredictable in the light of various infection waves and alert level fluctuations impacting tradeability within the general economy to a certain degree. The Spear portfolio has navigated through the interim period with valour. The high-quality and defensive nature of Spear's asset base coupled with strong lease covenants and a highly experienced management team has stood out during the interim period.

Rent preservation, tenant retention, marginal tenant support, debtors management and vacancy management have been the sharpest points of management's focus. The latter has resulted in a double-digit increase in group revenue compared to the comparable period, being HY2021. Consistent resilience has been evident across the portfolio during the interim period.

Isolated tenant casualties have been mitigated with speedy re-lets and aggressive marketing campaigns being the order of the day. The office portfolio has seen the largest vacancy creep and requires intense asset management focus moving forward. Spear's office portfolio is in very attractive locations and the vacancy reduction strategy is starting to bear fruit.

Overall, the Spear portfolio has maintained high occupancy levels during the interim period with a 92.79% occupancy rate at period end.

# SELECTED EXPLANATORY NOTES TO THE RESULTS (CONTINUED)

## FINANCIAL RESULTS

Group revenue (excluding smoothing) increased by 12.67% from the prior corresponding period as a result of fewer tenant relief measures being required and the full impact of acquisitions accounted for in this period that was concluded in the second quarter of HY2021. Net property operating profit (excluding smoothing) increased by 5.87% from the prior corresponding period.

The group generated positive cash flows from operating activities and this provided optionality in developments being undertaken as well as reviewing the payout ratio of the group.

Group results are on a like-for-like basis comparable to the prior corresponding period.

The board of directors is pleased to announce a HY2022 DPS of 33.05922 cents for the six months ended 31 August 2021.

|                                       | <b>Six months<br/>ended<br/>31 August<br/>2021<br/>R'000</b> | Six months<br>ended<br>31 August<br>2020<br>R'000 | Variance<br>% |
|---------------------------------------|--------------------------------------------------------------|---------------------------------------------------|---------------|
| Distributable income per share (DIPS) | <b>38.89</b>                                                 | 36.68                                             | 6.03          |
| Distribution per share (DPS)          | <b>33.06</b>                                                 | 29.34                                             | 12.66         |
| Payout ratio (%)                      | <b>85</b>                                                    | 80                                                |               |

Spear's results are in line with the forecast as disclosed during the results presentation in May 2021 and is a testament to Spear's focus, active asset and property management along with prudent financial management of the going concern under tough trading conditions.

|                                                        | <b>Six months<br/>ended<br/>31 August<br/>2021<br/>Rands</b> | Year ended<br>28 February<br>2021<br>Rands | Variance<br>% |
|--------------------------------------------------------|--------------------------------------------------------------|--------------------------------------------|---------------|
| Net asset value per share                              | <b>11.97</b>                                                 | 11.53                                      | 3.82          |
| Tangible net asset value per share                     | <b>11.94</b>                                                 | 11.50                                      | 3.83          |
| Tangible net asset value per share net of distribution | <b>11.61</b>                                                 | 11.21                                      | 3.57          |

*Refer to TNAV bridge for further commentary*

The financial results achieved during the interim period are, firstly, attributable to Spear's hands-on approach and regional focus, resulting in the execution of portfolio performance objectives during the interim period and beyond. Secondly, Spear's portfolio segmentation and the high-quality nature of its assets have further underpinned its ability to sustain and defend its cash flows and contractual rental income during the interim period. The hospitality portfolio remains the outlier in portfolio performance given the impact of the Covid-19 pandemic.

Notable income restoration within the hospitality portfolio has commenced during the last two weeks of the interim period. Earnings enhancements as a result of the fixed-income lease concluded over the 15 on Orange Hotel will reflect in the earnings for the second half of FY2022.

Rental reversions on lease renewals and re-lets have been concluded at largely acceptable levels within Spear's operating context and within management's forecast. Portfolio reversions during the interim period was -5.78%. Benchmarked with Spear's peers, portfolio reversions have in the context of extremely tough trading conditions been some of the lowest negative reversions for the respective reporting periods within the SA REIT sector.

# SELECTED EXPLANATORY NOTES TO THE RESULTS (CONTINUED)



Vacancy rates across the portfolio were at 7.21% at period end, increasing from 6.16% for FY2021.

Notable vacancy creep in the commercial portfolio has been the largest contributor to the increase in the portfolio vacancy factor.

The reversions and vacancy were in line with management's forecast and this was taken into account when the DIPS growth for FY2022 was announced to the market in May 2021.

Group gearing at HY2022 is 45.91% (FY2021: 45.81%) during the interim period as a result of fair value devaluations of under 1% across the investment portfolio together with the utilisation of cash reserves to complete portfolio redevelopments. There are no immediate debt refinancing risks within the business. A detailed debt expiry schedule is provided within this report.

Spear's balance sheet remains robust and well managed. No debt refinancing concerns exist within the business as an active management approach is taken to the debt portfolio to ensure well staggered refinancing terms and defensive expiry schedules across numerous funders. A detailed debt expiry schedule is provided within this report.

## COLLECTIONS AND RECEIVABLES

- 🔴 Collections have been satisfactory and in line with management's expectations, improving from the prior financial year
- 🔴 Tenant arrears as at the end of the reporting period amounted to R17.33 million excluding VAT, decreasing to R7.26 million excluding VAT post the interim period
- 🔴 Collections completed as at 11 October 2021.

| <b>HY2022 (excluding VAT)</b>           |     | <b>Total<br/>R'000</b> |
|-----------------------------------------|-----|------------------------|
| Budget (including utilities and hotels) |     | <b>274 152</b>         |
| Billed (including utilities and hotels) |     | <b>271 527</b>         |
| Collected                               |     | <b>264 269</b>         |
| Collected vs budget                     | (%) | <b>96.40</b>           |
| Collected vs billings                   | (%) | <b>97.33</b>           |

### Notes

- *Billing reflects revenue after all credits and deferments including recoveries.*
- *Budget set in January 2021.*
- *Difference to budget is predominately related to lower than budget utility charges recovered that are offset by lower expenses.*

At period end the total provision for bad debt was R4.26 million, being 24.57% of total tenant arrears.

Management is actively reviewing tenant arrears and at the end of the reporting period a total of R1.7 million of bad debt was written off in the period.

The provision is reviewed on a monthly basis and adjusted to accommodate tenants that have debtors outstanding of 120 days and more with very little prospect of recoverability.

FY2021 tenant arrears at year-end FY2021 was R15.09 million excluding VAT and has reduced post write-offs in the current period to R4.90 million.

Management has commended its debtors management team for the prudent collections and low receivables in this trading environment.

# SELECTED EXPLANATORY NOTES

## TO THE RESULTS (CONTINUED)

### PROPERTY PORTFOLIO

Spear's current property portfolio consists of 32 high-quality assets with an average value per asset of R140.7 million per property being a 1.16% increase from FY2021 (R139.1 million per property). Total gross lettable area ("GLA") at period end was 470 881m<sup>2</sup> valued at R4.55 billion.

The portfolio's income stream is underpinned by contractual escalations of 6.44%, a weighted average lease expiry ("WALE") of 27 months (FY2021: 27 months) together with a high percentage of A-grade tenants (listed and large nationals) comprising 50% of portfolio GLA. One of the hallmarks of Spear's portfolio has been the maintenance of a high occupancy rate with vacancies well below the national averages recorded by IPD and SAPOA, with an overall vacancy of 7.21% at the end of the financial year and (FY2021: 6.16% portfolio vacancies).

### TOP 10 PROPERTIES BY VALUE

| Property                                            | Value including lease asset R'000 | Sector      | GLA m <sup>2</sup> | Vacancy m <sup>2</sup> | % of total value | Valuation R/m <sup>2</sup> |
|-----------------------------------------------------|-----------------------------------|-------------|--------------------|------------------------|------------------|----------------------------|
| 1 Mega Park, Bellville                              | 474 000                           | Industrial  | 86 195             | 5 004                  | 10.53            | 5 499                      |
| 2 Liberty Life Building, Century City               | 436 000                           | Commercial  | 18 244             | 1 630                  | 9.68             | 23 898                     |
| 3 2 Long Street, Cape Town                          | 434 000                           | Commercial  | 25 192             | 4 794                  | 9.64             | 17 227                     |
| 4 Sable Square Shopping Centre, Milnerton           | 418 000                           | Retail      | 31 100             | 2 114                  | 9.28             | 13 441                     |
| 5 Northgate Park, Brooklyn                          | 332 000                           | Commercial  | 16 981             | 1 882                  | 7.37             | 19 551                     |
| 6 15 on Orange Hotel, Cape Town                     | 277 000                           | Hospitality | 16 663             | –                      | 6.15             | 16 624                     |
| 7 1 Waterhouse Place, Century City                  | 242 000                           | Commercial  | 11 611             | 3 217                  | 5.37             | 20 842                     |
| 8 MWEB Head Office, Parow                           | 173 000                           | Commercial  | 11 195             | –                      | 3.84             | 15 453                     |
| 9 UES Commercial, Retail and Residential, Woodstock | 143 000                           | Commercial  | 10 635             | 5 306                  | 3.18             | 13 446                     |
| 10 Blackheath Park, Blackheath                      | 140 000                           | Industrial  | 37 334             | 4 387                  | 3.11             | 3 750                      |
| <b>Top 10 Total</b>                                 | <b>3 069 000</b>                  |             | <b>265 151</b>     | <b>28 334</b>          | <b>69.07</b>     | <b>11 575</b>              |
| <b>Group Total excluding land</b>                   | <b>4 503 000</b>                  |             | <b>470 881</b>     | <b>33 932</b>          | <b>100.00</b>    | <b>9 563</b>               |

# SELECTED EXPLANATORY NOTES TO THE RESULTS (CONTINUED)



## SECTORAL SPLIT

|                                              | Industrial | Commercial | Retail  | Hospitality | Development | Total     |
|----------------------------------------------|------------|------------|---------|-------------|-------------|-----------|
| Number of properties                         | 10         | 14         | 6       | 2           | –           | 32        |
| Value of properties (R'000)                  | 1 235 000  | 2 253 500  | 635 500 | 379 000     | 49 017      | 4 552 017 |
| Value (%)                                    | 27         | 50         | 14      | 8           | 1           | 100       |
| Property revenue excluding smoothing (R'000) | 89 881     | 127 640    | 41 746  | 11 440      | –           | 270 707   |
| Revenue (%)                                  | 33         | 47         | 16      | 4           | –           | 100       |
| Gross lettable area (m <sup>2</sup> )        | 260 229    | 133 879    | 48 695  | 28 078      | –           | 470 881   |
| Gross lettable area (%)                      | 55         | 28         | 11      | 6           | –           | 100       |
| Vacant area (m <sup>2</sup> )                | 10 824     | 19 879     | 3 229   | –           | –           | 33 932    |
| Vacancy per sector (%)                       | 4.16       | 14.85      | 6.63    | –           | –           | –         |
| Vacancy on total GLA (%)                     | 2.30       | 4.22       | 0.69    | –           | –           | 7.21      |
| Yield (%)                                    | 9.46       | 7.29       | 8.04    | 2.15        | N/A         | 7.56      |
| Weighted average in-force escalation (%)     | 6.90       | 6.36       | 6.09    | 5.00        | N/A         | 6.44      |

### Notes

- *DoubleTree by Hilton Hotel is operated by a third-party operator and the lease is based on a fixed (60% of budgeted EBITDA) and variable (95% of actual EBITDA less fixed rental) rate, which is agreed annually. No rental has been charged or forecast for FY2022.*
- *15 on Orange Hotel is operated by a third-party operator and the lease will escalate at 5% at the second anniversary of the lease.*

## FAIR VALUE DISCLOSURES

All assets and liabilities measured or disclosed at fair value are classified using a three-tiered fair value hierarchy that reflects the significance of the inputs used in determining the measurement as follows:

**Level 1** Measurements in whole or in part are done by reference to unadjusted, quoted prices in an active market for identical assets and liabilities. Quoted prices are readily available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

**Level 2** Measurements are done by reference to inputs other than quoted prices that are included in level 1. These inputs are observable for the financial instrument, either directly (i.e. as prices) or indirectly (i.e. from derived prices).

**Level 3** Measurements are done by reference to inputs that are not based on observable market data.

The fair value of financial assets and liabilities that are not traded in an active market is determined by using valuation techniques.

Valuation models are used to value investment properties (measurement and disclosure) and financial liabilities that have fixed-interest rates (disclosure only).

The output of a model is always an estimate or approximation of a value that cannot be determined with certainty and valuation techniques employed may not fully reflect all factors relevant to the positions the company holds. Valuations are therefore adjusted, where appropriate, to allow for additional factors.

The fair value of investment properties is updated at each reporting period either by way of external valuations or directors' valuations.

# SELECTED EXPLANATORY NOTES

## TO THE RESULTS (CONTINUED)

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Investment property is required to be fair valued with sufficient regularity that the value is representative of the fair value. Per JSE requirements a third of investment properties are required to be valued by an independent valuer on an annual basis and the remaining two thirds are valued by management. Independent valuations were performed on a third of properties with effective date 28 February 2021 and the remaining properties were valued by management.

At interim period end all properties were valued by a RICS and SACPVP accredited valuer.

### VALUATION TECHNIQUE

The fair value of investment properties is determined by utilising the discounted cash flow methodology in terms of which estimated gross income is projected for a five-year period, based on contractual arrangements and an estimated market rent upon the expiry of the leases for the period of the cash flow. Forecast expenses are deducted from the estimated gross annual income projections to arrive at the net annual income stream for the period of the cash flow.

This net annual income stream is discounted and aggregated to determine an estimated net present value of the cash flow.

To the sum of the discounted net annual value of the cash flow is added an amount that represents an estimate of the value of the property upon reversion at the end of the cash flow period. This latter amount is calculated as the value of the estimated net income in the forward period of 12 months immediately following the final year of the cash flow, capitalised at an appropriate exit capitalisation rate.

The key inputs to the valuation of investment property are the discount rate and exit capitalisation rate, representative of the perceived risk in the investment.

Capitalisation rates (and more specifically exit capitalisation rates which are utilised at the end of the discounted cash flow period) to determine the fair value of investment property into perpetuity were examined and risk-adjusted where necessary, to account for factors that influence the sustainability of cash flows pertaining to each property such as location, condition of improvements, market conditions and the strength of the underlying lease covenants, inter alia.

The discount rate is the annual return that a prudent rational investor requires in order to invest in the property in a competitive market as opposed to alternative asset classes.

It is widely expected that a yield premium above an appropriate risk-free rate is required to induce investors to invest in property due to the additional perceived risk in this asset class as opposed to an alternative investment with no default risk. Similarly, discount rates were examined and risk-adjusted where necessary.

# SELECTED EXPLANATORY NOTES TO THE RESULTS (CONTINUED)



As at 31 August 2021, the following significant key assumptions and unobservable inputs used by the group in determining fair value were in the following ranges:

|                                             |          | Industrial | Commer-<br>cial | Retail    | Hospitality     | Total     |
|---------------------------------------------|----------|------------|-----------------|-----------|-----------------|-----------|
| Average discount rate                       | (%)      | 12.88      | 13.21           | 12.88     | Note 1<br>and 2 | 12.99     |
| Average capitalisation rate                 | (%)      | 8.88       | 9.21            | 8.88      |                 | 8.99      |
| Average exit capitalisation rate            | (%)      | 9.38       | 9.71            | 9.38      |                 | 9.49      |
| Average prior year exit capitalisation rate | (%)      | 9.33       | 9.29            | 9.13      |                 | 9.25      |
| Average rental growth rate                  | (%)      | 4.00       | 4.00            | 4.00      |                 | 4.00      |
| Average expense growth rate                 | (%)      | 6.00       | 6.00            | 6.00      |                 | 6.00      |
| Structural vacancy range                    | (%)      | 0.5 – 2.0  | 0.5 – 2.0       | 0.5 – 2.0 |                 | 0.5 – 2.0 |
| Void period range                           | (months) | 2 – 4      | 2 – 4           | 2 – 4     |                 | 2 – 4     |

## Notes:

- 15 on Orange Hotel is valued at the call option price of R265 million excluding the residential penthouse of R12 million.
- UES was valued by an independent valuer at interim period end by using the residual method, which is a hybrid of the market approach, the income approach and the cost approach. This is based on the completed "gross development value" and the deduction of development costs and the developer's return to arrive at the residual value of the development property.

These resulted in the following key metrics pertaining to the portfolio:

|                                                        |         | Industrial | Commer-<br>cial | Retail  | Hospitality | Total   |
|--------------------------------------------------------|---------|------------|-----------------|---------|-------------|---------|
| Average value per property (excluding land/bulk value) | (R'000) | 123 500    | 160 964         | 105 917 | 189 500     | 140 719 |
| Average value per square metre                         | (Rands) | 4 746      | 16 832          | 13 051  | 13 498      | 9 563   |

The fair market valuations are tested for reasonableness by comparing the resultant Rand per square metre against comparative sales of similar properties in similar locations.

It was found that the resultant rates per property and per asset class were reasonable and fair.

Further assumptions are used in the valuation of investment property. Inter-relationships between key unobservable inputs and fair value measurements are as follows:

The estimated fair value would increase/(decrease) if: the discount rate was lower/(higher); the reversionary capitalisation rate was lower/(higher); the expected market rental growth was higher/(lower); the expected expense growth was lower/(higher); the vacant periods were shorter/(longer); the rent-free periods were shorter/(longer); the the occupancy rate was higher/(lower); the estimate of market rentals was higher/(lower).

Due to Covid-19 all assumptions used by internal and external valuers were reviewed and adjusted where required. The material assumptions applied in property valuations have not changed materially from the prior year end, with the exception of the DoubleTree by Hilton Hotel.

The discount rate applied in the 2021 financial year varied between 13.5% and 14.50% (average 13.95%). The capitalisation rate applied in the 2021 financial year varied between 8.25% and 9.50% (average 8.95%).

# SELECTED EXPLANATORY NOTES TO THE RESULTS (CONTINUED)

The table below illustrates the sensitivity of the fair value to changes in the exit capitalisation rate:

|                                                                      | 2021<br>R'000 | 2020<br>R'000 |
|----------------------------------------------------------------------|---------------|---------------|
| <b>Sensitivity analysis to capitalisation rates</b>                  |               |               |
| Increase in fair value if capitalisation rates are decreased by 0.5% | 257 459       | 254 693       |
| Decrease in fair value if capitalisation rates are increased by 0.5% | (230 895)     | (228 422)     |

## SECTORAL PERFORMANCE

### INDUSTRIAL (GLA: 260 229m<sup>2</sup>/Occupancy: 95.84%)

The industrial portfolio continued its strong performance during the interim period with consistent demand for Spear's rental properties across this asset type. Material blue-chip mid- and large-scale industrial unit user uptake was recorded in the form of new lets and lease renewals during the interim period. Spear's diverse industrial portfolio consists of modern logistics, mini, mid-size and large-scale industrial units with efficient designs, large yard areas and superior power supplies. More than 57 500m<sup>2</sup> (22% of industrial GLA) of industrial letting activity took place during the interim period to three blue-chip tenants on long-term lease agreements.

### COMMERCIAL (GLA: 133 879m<sup>2</sup>/Occupancy: 85.15%)

All of Spear's commercial assets are located in highly attractive, secure and well-established office nodes within Cape Town. The effects of the Covid-19 pandemic coupled with a clumsy vaccination rollout has had a negative impact on Spear's commercial portfolio. The most material vacancy creep has been evident within the commercial portfolio as a reluctance by businesses to initiate a return-to-work strategy in the absence of a wider vaccination rollout within the Western Cape. Corporate South Africa is initiating vaccination requirements within their respective business operations as a precursor to returning to office. The office market recovery will largely depend on the speed at which meaningful return-to-office strategies can be implemented. Asking rentals remain under pressure and the costs of placing tenants are costly as more flexible lease terms provide less income certainty.

### RETAIL (GLA: 48 695m<sup>2</sup>/Occupancy: 93.37%)

Spear's retail assets are in high growth nodes servicing Century City and the broader Northern Suburbs market. 41% of Spear's convenience retail portfolio is let to national tenants. Management has since inception only invested into convenience retail centres which has continued to pay off. The convenience-focused retail portfolio had traded with resilience and has provided a strong income underpin during the interim period as South Africa moved through various infection waves and alert levels. Irrespective of the various lockdown levels a large percentage of tenants within the retail portfolio were able to trade, thus significantly reducing Spear's tenant support measures. Spear's retail asset performance and letting activity has been in line with management's forecasts. No significant retail tenant failures occurred during the interim period.

### HOSPITALITY (GLA: 28 078m<sup>2</sup>/Occupancy: 100%)

The impact of the Covid-19 pandemic and South Africa still being on the red list of certain inbound feeder markets have not boded well for the hospitality sector. In recent weeks the world has started to open again with South Africa being removed off certain red lists, allowing inbound travel to recommence from those markets. The improved vaccination statistics within South Africa should result in further red list removals as we approach the last few months of 2021.

15 on Orange has reopened under the Capital Hotels & Apartments brand mid-August 2021. The nature of this new lease is a triple net fixed-income lease. The entrepreneurial approach adopted by the new operator has already shown to be bearing fruit as positive rooms, conferencing and F&B activity is evident across the property.

# SELECTED EXPLANATORY NOTES TO THE RESULTS (CONTINUED)



The DoubleTree by Hilton, Cape Town has post the move to alert level 2 shown marginal operational improvements. Certain international travel markets, domestic leisure and business markets have returned along with growing small meetings and conference events. The move to alert level 2 has resulted in improved hotel occupancy levels, F&B turnover and function room rentals as the hotel operations work towards breakeven levels. Aggressive operating expense management measures have remained in place since the onset of the Covid-19 pandemic to ensure prudent navigation of the trading environment.

## TENANT GRADING

|                                                   | Gross<br>lettable area<br>m <sup>2</sup> | Gross<br>lettable area<br>% | Number<br>of tenants | Number<br>of tenants<br>% |
|---------------------------------------------------|------------------------------------------|-----------------------------|----------------------|---------------------------|
| A – Large national, listed and government tenants | 234 136                                  | 50                          | 99                   | 24                        |
| B – Smaller international and national tenants    | 190 822                                  | 40                          | 251                  | 62                        |
| C – Other local tenants and sole proprietors      | 11 992                                   | 3                           | 58                   | 14                        |
| Vacant                                            | 33 932                                   | 7                           | –                    | –                         |
|                                                   | <b>470 881</b>                           | <b>100</b>                  | <b>408</b>           | <b>100</b>                |

## LETTING ACTIVITY

The table below reflects the letting activity of the interim period:

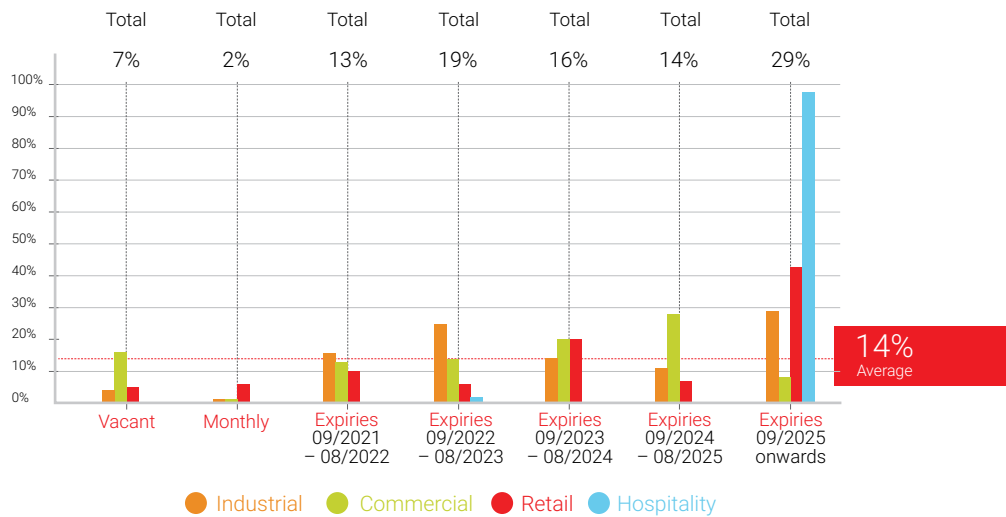
|                                  | Expiries<br>and<br>cancel-<br>lations<br>GLA | Gross<br>rental<br>at expiry<br>R'000 | Average<br>gross<br>expiry<br>rental<br>R/m <sup>2</sup> | Renewals/<br>New lets<br>GLA | Gross<br>rental at<br>renewals/<br>new lets<br>R'000 | Average<br>gross new<br>rental<br>R/m <sup>2</sup> | Average<br>rental<br>reversion |
|----------------------------------|----------------------------------------------|---------------------------------------|----------------------------------------------------------|------------------------------|------------------------------------------------------|----------------------------------------------------|--------------------------------|
| <b>Commercial</b>                | 17 157                                       | 2 311                                 | 134.70                                                   | 13 705                       | 1 742                                                | 127.11                                             | (5.63)                         |
| <b>Industrial</b>                | 48 278                                       | 2 421                                 | 50.14                                                    | 44 479                       | 2 157                                                | 48.49                                              | (3.29)                         |
| <b>Retail</b>                    | 8 134                                        | 698                                   | 85.82                                                    | 7 655                        | 680                                                  | 88.79                                              | 3.46                           |
| <b>Hospitality</b>               | 16 179                                       | 706                                   | 43.65                                                    | 16 179                       | 2 268                                                | 140.21                                             | 221.24                         |
| <b>Total</b>                     | <b>89 748</b>                                | <b>6 136</b>                          | <b>68.37</b>                                             | <b>82 018</b>                | <b>6 847</b>                                         | <b>83.48</b>                                       | <b>22.11</b>                   |
| <b>Excluding<br/>Hospitality</b> | <b>73 569</b>                                | <b>5 430</b>                          | <b>73.81</b>                                             | <b>65 839</b>                | <b>4 579</b>                                         | <b>69.54</b>                                       | <b>(5.78)</b>                  |

- 🔴 Spear's lease expiry profile remains defensive with a WALE of 27 months
- 🔴 Early tenant engagement has contributed and mitigated deep negative rental reversions, specifically in the commercial portfolio
- 🔴 The consensus view is that portfolio rentals are largely market-related and assets remain in attractive nodes
- 🔴 Industrial reversion is due to one tenant that was replaced on a new long-term lease over 11 000m<sup>2</sup> – this was in line with management's forecast
- 🔴 Retail letting activity remains resilient as demand for retail units persists.

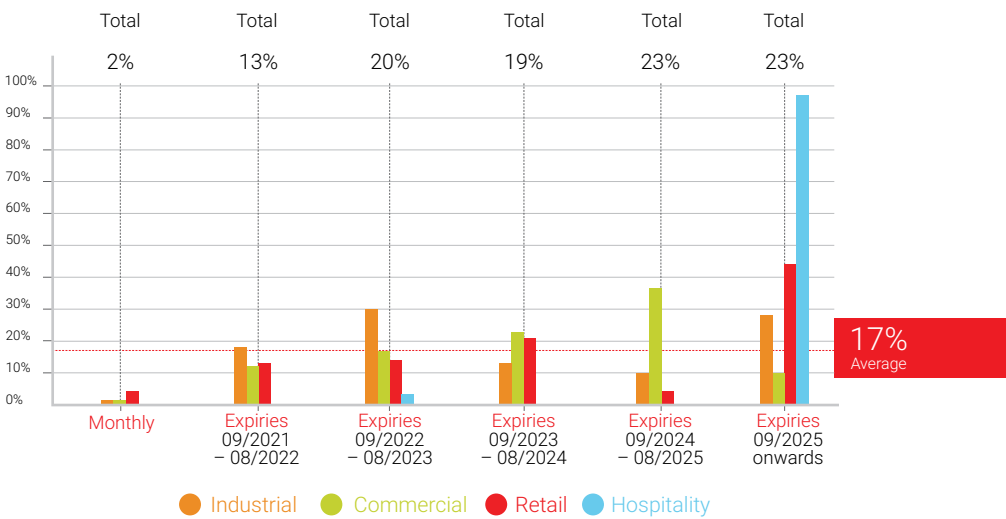
# SELECTED EXPLANATORY NOTES TO THE RESULTS (CONTINUED)

## LEASE EXPIRY PROFILE

LEASE EXPIRY PROFILE BASED ON GLA



LEASE EXPIRY PROFILE BASED ON REVENUE



# SELECTED EXPLANATORY NOTES TO THE RESULTS (CONTINUED)



## CAPITAL EXPENDITURE AND REDEVELOPMENT

### 11 HEWETT AVENUE, EPPING

Management recently concluded a long-term lease renewal with Nampak Limited situated in Epping, Cape Town. The initial warehouse occupied was 12 500m<sup>2</sup> and given growth demands Nampak has required specific upgrades and extensions to be affected to the property off the back of the extended lease tenure. An additional 2 000m<sup>2</sup> warehouse has been constructed to create a consolidated 14 500m<sup>2</sup> modern warehouse facility together with a 1 MVA rooftop solar PV solution.

- 🔥 Total capital expenditure: R34 million
- 🔥 Initial post capital expenditure yield: 9.33%
- 🔥 Lease tenure: 10 years
- 🔥 Status: Additions completed and roof infrastructure to be completed in December 2021

### BEACON WAY, BEACONVALE

Management concluded a long-term lease and redevelopment agreement with UCD (Nova Marine), which is a wholly owned subsidiary of Sturrock Grindrod Marine Services. The property has been redeveloped into a state-of-the-art container terminal and bulk storage facility. The erf size of the property is 32 000m<sup>2</sup> with a total yard area of 24 000m<sup>2</sup> utilised as the container terminal and the balance of the warehouse and offices for storage and administration.

- 🔥 Total capital expenditure: R44 million
- 🔥 Initial post capital expenditure yield: 9.03%
- 🔥 Lease tenure: 10 years
- 🔥 Status: Completed

## CAPITAL ALLOCATION AND STRATEGIC FOCUS

Capital allocation is a key pillar in the establishment and maintenance of a high-quality real estate portfolio. Management interrogates in detail the best use of every rand deployed across the business and how it would add value to the underlying business and provide long-dated shareholder returns.

Capital preservation under the current environment further enhances the balance sheet and provides optionality to management. The current trading environment demands that the allocation of capital be done in the most strategic and most prudent manner possible.

Earmarked capital will be deployed as follows:

- 🔥 Share buybacks from retained income and cash reserves at pricing levels where the distribution yield is more accretive than an acquisition yield on a new portfolio asset
- 🔥 Acquisitions or development/redevelopment opportunities with a primary focus on convenience retail, logistics-focused industrial and mixed-use assets
- 🔥 Major portfolio upkeep and capital expenditure.

As part of management's active balance sheet management approach continuous evaluations are done across the portfolio to assess which assets are ripe for disposal or redevelopment. Maximising shareholder value and aligning the balance sheet with strategic LTV goals inform management's disposal consideration. Disposal proceeds will be deployed into management's stated LTV reduction roadmap until the stated mid-point has been reached, being in the region of 40% LTV.

# SELECTED EXPLANATORY NOTES TO THE RESULTS (CONTINUED)

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## BALANCE SHEET AND RISK MANAGEMENT

Management has maintained its obsession with its hands-on, active, and prudent balance sheet management approach. The pandemic environment of the past 18 months tested Spear's balance sheet and we proudly reflect on how robustly it held up against the impact of Covid-19. Spear's balance sheet remains robust and meeting all covenants.

Management maintains strong and unblemished relationships with its funding partners Nedbank CIB and Standard Bank Real Estate Finance. Spear's funders have been incredibly supportive and remain aligned with Spear's strategic and growth objectives within the Western Cape.

Spear's strictest covenants were relaxed for the FY2021 and FY2022 measurement periods from 50% LTV to 55% LTV, 2.0 interest cover ratio ("ICR") to 1.75 times ICR. The latter further underscores the level of alignment Spear enjoys with its funders as the above relaxations gave management the scope to actively focus on navigating Spear through the pandemic environment.

Both the LTV and ICR currently are well below covenant levels and improving.

Management's LTV reduction roadmap is in place as earmarked assets are being actively marketed to give effect to a 38% – 43% LTV over the next 12 – 18 months with a clear strategic intent of operating in the mid-point range of 41%. The group's gearing levels at the end of the reporting period were at 45.91%.

Spear's hedging policy remains in the range of 55% – 65% of debt hedged at any given time. Given the current interest rate environment, management took advantage of the historically low variable interest rate and is currently on the lowest end of its debt hedged strategy. Hedging activity will increase within the next six months.

Spear's debt portfolio remains actively managed with an all-in cost of debt for the interim period of 7.01% and a hedged ratio of 55.16% at the end of the period with the weighted average cost of fixed debt being 8.34%.

Spear's debt expiry profile provides no short to medium-term refinancing risk with the weighted average expiry being 30 months with the bulk of Spear's debt coming due for renegotiation in FY2024 onwards.

## COST-TO-INCOME

SA REIT gross total cost-to-income is 43.13%, increasing from 39.82% for the prior financial year.

Administrative cost-to-income for the period was 6.86%, increasing from 5.48% for the prior financial year.

The increases are directly related to the increased provisions and vacancies and normalised post Covid-19 expenditure.

The ratios are expected to reduce in the final six months of the year after the commencement of the 15 on Orange lease and as the vacancy rate reduces.

# SELECTED EXPLANATORY NOTES TO THE RESULTS (CONTINUED)



## BORROWINGS AND FUNDING

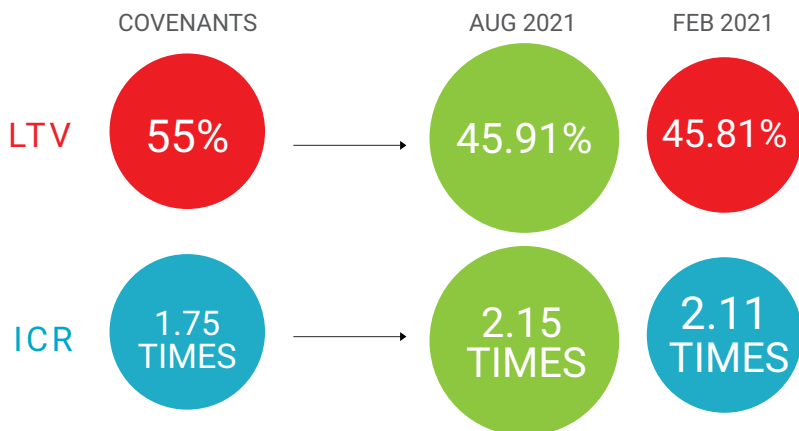
During the period a total of R512.98 million of gross debt was refinanced. A total of R480 million of the refinanced debt was fixed and the all-in fixed rate improved by a weighted average of 73 basis points for the refinanced debt.

Post interim period a further R256.87 million of variable debt has been refinanced on improved and extended terms.

Management is monitoring the interest rate environment to continuously seek opportunities to improve group funding as well as increase hedged positions at the appropriate time.

## GROUP COVENANTS

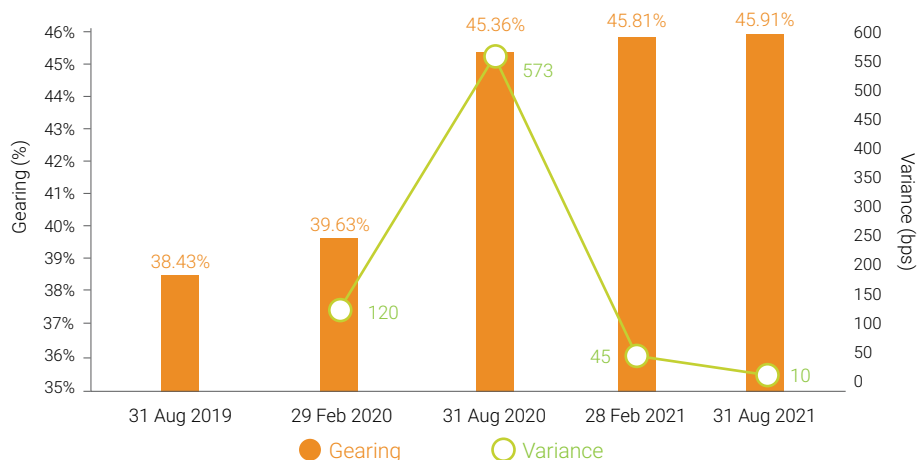
There has been no change in group covenant levels set by financial institutions in the interim period.



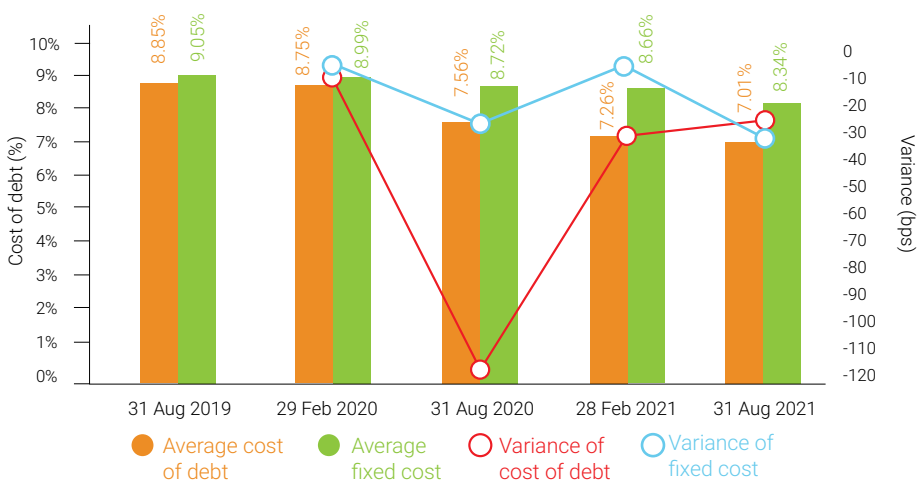
# SELECTED EXPLANATORY NOTES TO THE RESULTS (CONTINUED)

## GROUP GEARING

### GEARING RATIO



### IN-FORCE COST OF DEBT FOR PERIOD



At period end the variable prime-linked loans bear interest at an average rate of prime less 1.43% and variable JIBAR-linked loans at an average margin of JIBAR plus 1.93%.

# SELECTED EXPLANATORY NOTES TO THE RESULTS (CONTINUED)



## GROUP DEBT PROFILE



**R1.2bn**

Fixed debt **55.2%**

Cost  
8.34%

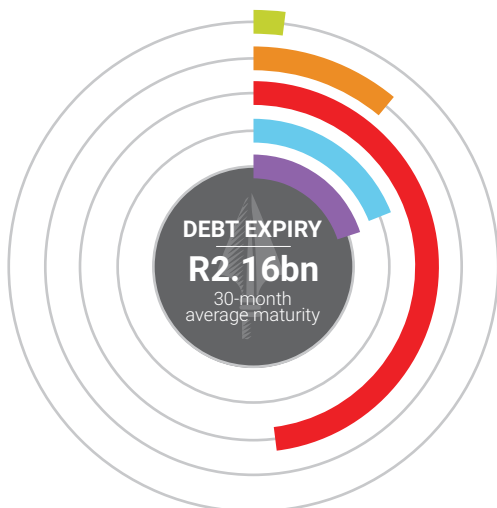
Weighted  
average maturity  
34 months

**R967m**

Variable debt **44.8%**

Cost  
5.62%

Weighted  
average maturity  
31 months



**R34m**

FY2022 **2%**

**R241m**

FY2023 **11%**

**R1.04bn**

FY2024 **48%**

**R405m**

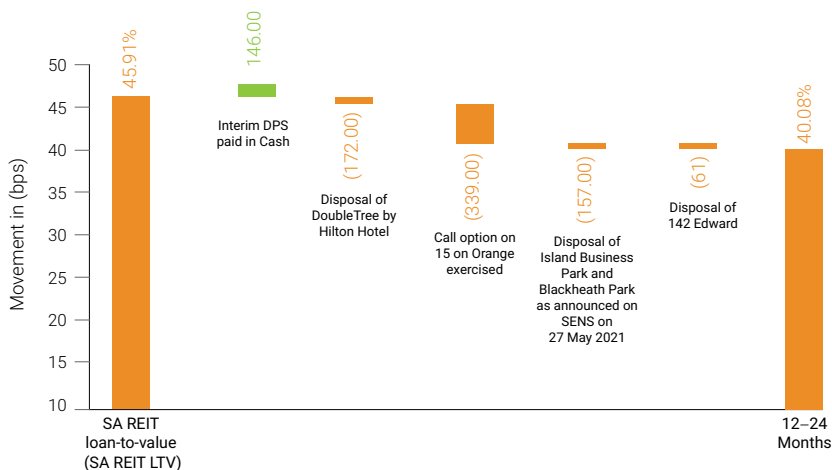
FY2025 **19%**

**R439m**

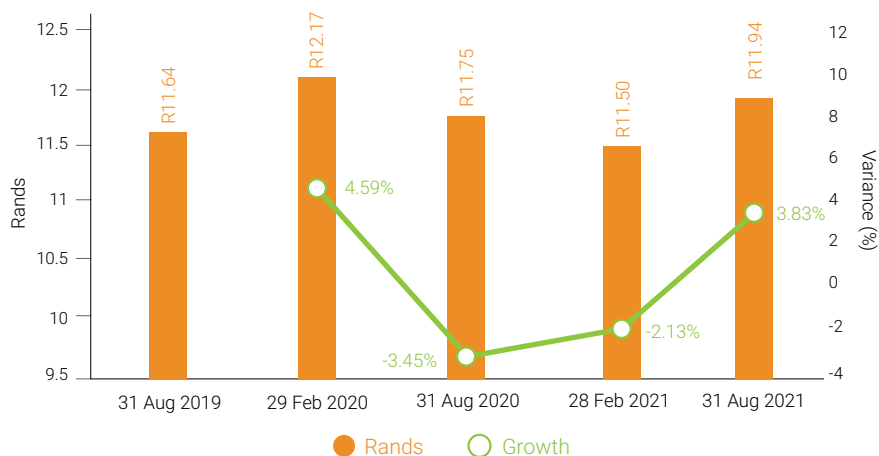
FY2026 **20%**

# SELECTED EXPLANATORY NOTES TO THE RESULTS (CONTINUED)

## LTV FORECAST



## TANGIBLE NET ASSET VALUE

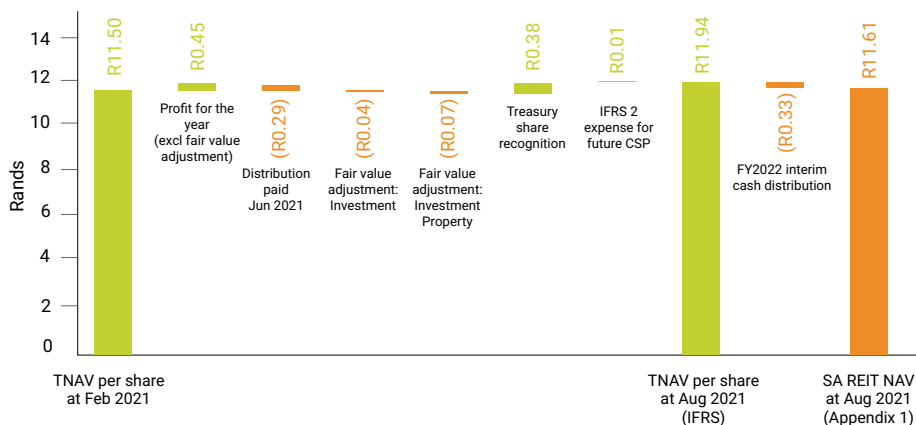


The above ratio is IFRS compliant and is required for disclosure but please refer to Appendix 1 and table for the SA REIT NAV calculation.



# SELECTED EXPLANATORY NOTES TO THE RESULTS (CONTINUED)

## TNAV BRIDGE



## SUSTAINABILITY

### SOLAR PV ROLLOUT

Spear aligns itself with a people, planet, and profit approach to business operations. Spear's sustainability strategy is modelled and tested on every investment considered and executed upon by the business. Management continually seeks opportunities to place less and less reliance on fossil fuel-generated electricity. Renewable energy solutions such as solar PV and water augmentation systems will continue to be rolled out onto as many assets as possible across the portfolio. Spear has partnered with leading industry experts in the execution of its sustainability strategy and remains committed to reducing the group's carbon footprint.

# SELECTED EXPLANATORY NOTES

## TO THE RESULTS (CONTINUED)

### SUMMARY OF SOLAR PV

|                                                                                                                                                                                               |                                                                                                                                                                           |                                                                                                                                                                                           |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|  <b>NUMBER OF PROPERTIES WITH SOLAR</b><br><b>CURRENT: 9</b><br><b>FUTURE: 9</b><br><b>TOTAL: 18</b>         |  <b>% OF PORTFOLIO</b><br><b>CURRENT: 28%</b><br><b>FUTURE: 34%</b><br><b>TOTAL: 63%</b> |  <b>AVERAGE SOLAR PENETRATION RATE</b><br><b>CURRENT: 28%</b><br><b>FUTURE: 30%</b><br><b>TOTAL: 29%</b> |
|  <b>TOTAL kWp OF SOLAR INSTALLED</b><br><b>CURRENT: 3 970</b><br><b>FUTURE: 4 035</b><br><b>TOTAL: 8 005</b> |  <b>ROOF RENTAL</b><br><b>CURRENT: 7</b><br><b>FUTURE: 4</b><br><b>TOTAL: 11</b>         |  <b>FINANCED</b><br><b>CURRENT: 2</b><br><b>FUTURE: 5</b><br><b>TOTAL: 7</b>                             |

|                                              | <b>CURRENT (9)</b><br><b>R'000</b> | <b>FUTURE (9)</b><br><b>R'000</b> | <b>TOTAL (18)</b><br><b>R'000</b> |
|----------------------------------------------|------------------------------------|-----------------------------------|-----------------------------------|
|                                              | R'000                              | R'000                             | R'000                             |
| Average annual roof rental per property      | 133                                | 327                               | 239                               |
| Average annual savings per financed property | 134                                | 429                               | 345                               |

|                                 | <b>CURRENT (9)</b><br><b>R'000</b> | <b>FUTURE (9)</b><br><b>R'000</b> | <b>TOTAL (18)</b><br><b>R'000</b> |
|---------------------------------|------------------------------------|-----------------------------------|-----------------------------------|
| Value of PV Solar – Roof Rental | 31 798                             | 21 367                            | 53 164                            |
| Value of PV Solar – Financed    | 10 004                             | 13 544                            | 23 548                            |

Management through its solar PV strategy has successfully initiated and completed solar PV solutions for nine out of 18 properties with the balance set for completion towards the end of FY2022.

Approximately 6 – 7.1 million kWh of solar energy will be generated over the next 12 months on the 18 completed sites with an anticipated penetration rate of 29%. Post the increase in allowable solar PV system sizes management has approved the scaling up on both Sable Square Shopping Centre by an additional 400kWp and Mega Park Industrial Estate by an additional 1 750kWp.

### WATER CONTINUITY

Water continuity and resources management continues across the real estate portfolio with water augmentation and purification systems installed across the commercial office portfolio in the form of reverse osmosis water purification systems for clean potable water and grey water systems for ablutions and landscaping services reducing the overall reliance and usage of clean water. Bulk water storage facilities remain installed and active across the portfolio linked into operational boreholes and well points.



# SELECTED EXPLANATORY NOTES TO THE RESULTS (CONTINUED)

## OUTLOOK

Spear's management team has been energised and deeply encouraged by the trading performance during the interim period. The balance of the year ahead is set to further reflect the strength and resilience of the Spear portfolio as earnings enhancements start to flow through meaningfully.

The short-term economic outlook in South Africa remains muted, and the low-growth environment is likely to be a stubborn feature of our operating landscape for the near to medium term.

Passing rentals particularly in the commercial sub-sector will remain under pressure for some time as excess supply is taken up by return-to-work momentum and residential conversions. Management anticipates that the second half of the financial year's overall performance will improve on the interim period performance. Letting activity progress post the interim period is indicating strong conversion rates along with increasing new let activity. Management does not anticipate negative rental reversions to deepen excessively further than the statistics provided in the interim period. Rental collection percentages have continued to trend upwards together with historical deferrals consistently being reduced by tenants. The management team will remain intently focused on rental and tenant preservation on an operational level and sound financial management on a balance sheet and income statement level.

South Africa must be removed off travel red lists and we anticipate this to happen by December 2021. Positive signs of localised leisure and growing business travel have been noted within Spear's hospitality assets during the interim period and beyond as business on the books reflects a growing inclination for larger scale meetings and conferences within the current alert level 2 regulations. As the vaccination rollout gains further momentum and citizens receive their second vaccination shot, we anticipate a meaningful return-to-office trend to kick into gear. The latter will contribute towards vacancy reduction within the current commercial portfolio, however, asking rentals will remain under pressure for some time.

- 🔴 Management will maintain its active and hands-on management approach
- 🔴 Aggressively filling of vacant space for additional cash flow unlock
- 🔴 All health and safety protocols continue to be maintained across the portfolio
- 🔴 Management will focus on improving on rental collection percentages and recovering historical debtors
- 🔴 Actively and successfully dispose of earmarked assets in line with Spear's LTV reduction strategy
- 🔴 Western Cape only focus will be maintained and proximity to assets remain excellent
- 🔴 Demand for rental properties within the Western Cape has increased post the civil unrest in KwaZulu-Natal and Gauteng
- 🔴 No major decline in portfolio fair value during FY2022.

## PROSPECTS AND GUIDANCE

As we start to come to grips with a post-Covid-19 world, the economic outcomes are only partially in view. Spear's regional focus has in certain respects shielded the business from the deep national impact brought on by the pandemic on the real estate sector. Spear's portfolio bias to high-quality industrial assets within the Western Cape has been a strong moat around the business. The main acquisitive priority will be further investment into high-quality industrial/logistics assets together with increasing the convenience retail portfolio. Management is focused on reducing the vacancy creep within the commercial portfolio and realising its exit from hospitality within the next 12 – 18 months. High-quality fixed-income assets will become the sole investment class for Spear.

The national real estate sector will continue to operate under very tough trading conditions as South Africa navigates its way through the aftermath of the Covid-19 pandemic and the severely negative economic consequences left in its wake. Limited macroeconomic improvements in the trading environment will occur in the short to medium term, making the road ahead extremely tough and generally difficult to follow chart.

# SELECTED EXPLANATORY NOTES

## TO THE RESULTS (CONTINUED)

**Spear remains on track to achieve management's guidance set out to the market for FY2022. Management's guidance remains a DPS growth of 6% – 8% for FY2022 based on an 80% payout ratio.**

Spear has increased its payout ratio from 80% (FY2021) to 85% of DIPS for HY2022. Should the second half of the financial year deliver similar performance or stronger than the interim period, the board will strongly consider further increasing the payout ratio.

Spear continues to meet all its funding covenants and remains sufficiently capitalised to meet all short- and long-term commitments. Management conducts regular cash flow analysis to stress test the cash flows on a rolling 12-month basis. This includes a range of scenarios of tenant collections and creditor requirements.

Management will provide a further trading update and guidance on a final distribution per share declaration in a pre-close presentation prior to year-end.

The guidance is based on the following assumptions:

- 🔥 Continuous recovery of the macroeconomic environment post-pandemic
- 🔥 No further extensive and deeply prohibitive lockdowns
- 🔥 Lease renewals are concluded per the company forecast
- 🔥 No major tenant failures occur during the balance of the financial year
- 🔥 Tenants will maintain their ability to settle historical deferments together with the rising costs of occupancy
- 🔥 South Africa is removed off more travel red lists resulting in inbound travel recovery
- 🔥 Return-to-office momentum increases as vaccination percentages increase nationally
- 🔥 No significant periods of load shedding or grid failures
- 🔥 No major civil unrest within the Western Cape and the rest of South Africa.

Any changes in the above assumptions may affect management's forecast for the year ending 28 February 2022.

The information and opinions contained above are recorded and expressed in good faith and are based on reliable information provided to management.

No representation, warranty, undertaking or guarantee of whatsoever nature is made or given with regard to the accuracy and/or completeness of such information and/or the correctness of such opinions.

The forecast for the period ending 28 February 2022 is the sole responsibility of the directors and has not been reviewed or audited by Spear's independent external auditors.

## SUBSEQUENT EVENTS

The directors are not aware of any events that have occurred since the end of the reporting period and which have had a material impact on the results and disclosures in these provisional summarised consolidated interim financial results for the six months ended 31 August 2021.

# SELECTED EXPLANATORY NOTES TO THE RESULTS (CONTINUED)



## BASIS OF PREPARATION – UNAUDITED

The unaudited consolidated interim results for the six months ended 31 August 2021 are prepared in accordance with the JSE Listings Requirements and the requirements for provisional reports and requirements of the Companies Act of South Africa. The JSE Listings Requirements require interim reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards ("IFRS"), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council and to also, as a minimum, contain the information required by IAS 34, Interim Financial Reporting. Except for the adoption of revised and new standards that became effective during the year, all accounting policies applied in the preparation of these provisional summarised consolidated financial statements are in terms of IFRS and are consistent with those applied in the previous consolidated financial statements. There was no material impact on the annual financial statements as a result of the adoption of these standards.

Christiaan Barnard CA (SA), in his capacity as Chief Financial Officer, was responsible for the preparation of the unaudited consolidated interim results for the six months ended 31 August 2021. These consolidated interim results have not been reviewed or reported on by the company's auditors.

## INTERIM DISTRIBUTION FOR THE SIX MONTHS ENDED 31 AUGUST 2021

Notice is hereby given of the declaration of final distribution number 9 of 33.05922 cents per share for the six months ended 31 August 2021 from income reserves.

As Spear is a REIT, the distribution meets the definition of a "qualifying distribution" for the purposes of section 25BB of the Income Tax Act, No. 58 of 1962 (Income Tax Act). Qualifying distributions received by South African tax residents will form part of their gross income in terms of section 10(1)(k)(i)(aa) of the Income Tax Act. Consequently, these distributions are treated as income in the hands of the shareholders and are not subject to dividends withholding tax. The exemption from dividends withholding tax is not applicable to non-resident shareholders, but they may qualify for relief under a tax treaty.

## SOUTH AFRICAN TAX RESIDENTS

The dividend received by or accrued to South African tax residents must be included in the gross income of such shareholders and will not be exempt from income tax in terms of the exclusion to the general dividend exception, contained in section 10(1)(k)(i)(aa) of the Income Tax Act, because it is a dividend distributed by a REIT. These dividends are, however, exempt from dividend withholding tax ("Dividend Tax") in the hands of South African tax resident shareholders, provided that the South African resident shareholders have provided to the Central Securities Depository Participant ("CSDP") or broker, as the case may be, in respect of uncertificated shares, or to the company, in respect of certificated shares:

- a) a declaration that the dividend is exempt from Dividend Tax; and
- b) a written undertaking to inform the CSDP, broker or the company, should the circumstances affecting the exemption change or the beneficial owner cease to be the beneficial owner, both in the form prescribed by the Commissioner for the South African Revenue Service.

Shareholders are advised to contact their CSDP, broker or the company to arrange for the above-mentioned documents to be submitted prior to payment of the dividend, if such documents have not already been submitted.

# SELECTED EXPLANATORY NOTES TO THE RESULTS (CONTINUED)

## NON-RESIDENTS SHAREHOLDERS

Dividends received by non-resident shareholders will not be taxable as income and instead will be treated as an ordinary dividend which is exempt from income tax in terms of the general dividend exemption in section 10(1)(k)(i) of the Income Tax Act. It should be noted that up to 31 December 2013, dividends received by non-residents from a REIT were not subject to Dividend Tax. Since 1 January 2014, any dividend received by a non-resident from a REIT will be subject to Dividend Tax at 20%, unless the rate is reduced in terms of any applicable agreement for the avoidance of double taxation ("DTA") between South Africa and the country of residence of the shareholder concerned. Assuming Dividend Tax will be withheld at a rate of 20%, the net dividend amount due to non-resident shareholders is 26.44738 cents per share. A reduced Dividend Tax rate in terms of the applicable DTA may only be relied on if the non-resident shareholder has provided the following form to their CSDP or broker in respect of uncertificated shares, or the company, in respect of certificated shares:

- a) a declaration that the dividend is subject to a reduced rate as a result of the application of DTA; and
- b) a written undertaking to inform their CSDP, broker or the company, should the circumstances affecting the reduced rate change or the beneficial owner cease to be the beneficial owner, both in the form prescribed by the Commissioner for the South African Revenue Service.

Non-resident shareholders are advised to contact their CSDP, broker or the company to arrange for the above-mentioned documents to be submitted prior to payment of the dividend, if such documents have not already been submitted.

The number of ordinary shares in issue on declaration date is 214 615 571.

The company's tax reference number is 9068437236.

Holders of uncertificated shares have to ensure that they have verified their residence status with their CSDP or broker. Holders of certificated shares will be asked to complete a declaration to the company. The distribution is payable to shareholders in accordance with the timetable set out below:

|                                             | 2021                   |
|---------------------------------------------|------------------------|
| Declaration date                            | Tuesday, 26 October    |
| Last day to trade cum-dividend distribution | Tuesday, 16 November   |
| Shares trade ex-dividend distribution       | Wednesday, 17 November |
| Record date                                 | Friday, 19 November    |
| Payment date                                | Monday, 22 November    |

### Notes:

- Share certificates may not be dematerialised or rematerialised between Wednesday, 17 November 2021 and Friday, 19 November 2021, both days inclusive.
- In respect of dematerialised shareholders, the distributions will be transferred to the CSDP/broker accounts on Monday, 22 November 2021. Certificated shareholders' distribution payments will be paid to certificated shareholders' bank accounts on Monday, 22 November 2021.

On behalf of the board

Spear REIT Limited

**Abubaker Varachhia**  
Non-executive Chairman

**Quintin Rossi**  
Chief Executive Officer

**Christiaan Barnard**  
Chief Financial Officer

Cape Town  
26 October 2021

# DIRECTORATE AND ADMINISTRATION

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## SPEAR REIT LIMITED

Incorporated in the Republic of South Africa  
Registration number 2015/407237/06  
JSE share code: SEA  
ISIN: ZAE000228995  
LEI: 378900F76170CCB33C50  
(Approved as a REIT by the JSE)  
("Spear" or "the group" or "the company")

## REGISTERED OFFICE

16th Floor  
2 Long Street  
Cape Town, 8001  
(PO Box 50, Observatory, 7935)

## DIRECTORS OF SPEAR

Abubaker Varachhia \*  
(Non-executive Chairman)  
Michael Naftali Flax \*  
(Non-executive Deputy Chairman)  
Quintin Michael Rossi  
(Chief Executive Officer)  
Christiaan Barnard  
(Chief Financial Officer)  
Brian Leon Goldberg \*\*  
Jalaloodien Ebrahim Allie \*\*  
(Lead Independent Director)  
Niclas Kjellström-Matseke \*\*  
Cormack Sean McCarthy \*  
Dr. Rozett Phillips \*\*

\* Non-executive

# Independent

## CONTACT DETAILS

info@spearprop.co.za  
www.spearprop.co.za

## COMPANY SECRETARY

René Cheryl Stober

## TRANSFER SECRETARIES

Computershare Investor Services Proprietary Limited  
Rosebank Towers, 15 Biermann Avenue,  
Rosebank, 2196  
(Private Bag X9000, Saxonwold, 2132)

## INDEPENDENT REPORTING ACCOUNTANTS AND AUDITORS

BDO South Africa Incorporated  
6th Floor, 123 Hertzog Boulevard  
Foreshore, Cape Town, 8001  
(PO Box 2275, Cape Town, 8000)

## SPONSOR

PSG Capital Proprietary Limited  
1st Floor, Ou Kollege Building  
35 Kerk Street, Stellenbosch, 7600  
(PO Box 7403, Stellenbosch, 7599)

and

2nd Floor, Building 3  
11 Alice Lane, Sandhurst  
Sandton, 2196  
(PO Box 650957, Benmore, 2010, South Africa)

## LEGAL ADVISER

Cliffe Dekker Hofmeyr  
11 Buitengracht Street, Cape Town, 8001  
(PO Box 695, Cape Town, 8000)

## BANKERS

Nedbank Limited  
Standard Bank Limited  
Investec Limited

**www.spearprop.co.za**



**SPEAR**  
REIT LIMITED

16<sup>th</sup> Floor, 2 Long Street, Cape Town, 8001

[info@spearprop.co.za](mailto:info@spearprop.co.za)

**[www.spearprop.co.za](http://www.spearprop.co.za)**

